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CHINESE REGULATION ON REVALUATION OF ASSETS AND READJUSTMENT OF CAPITAL IN PRIVATE ENTERPRISES

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Peiping, Mar 1951

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[Comment: This report summarizes the text of the Regulation Concerning the Revaluation of Assets and the Readjustment of Capital in Private Enterprises, issued by the Committee of Finance and Economics, Government Administration Council, on 21 December 1950. The regulation was taken from the appendix in the above-named source.]

A General

1. All private enterprises in China, whether or not their assets have already been revaluated and their capital has been readjusted after the closing of business for the calendar year 1950, on 31 December 1950, must revaluate all assets and readjust the amount of capital as specified in this regulation.

2. Assets to be revaluated will include all assets, both recorded and not recorded, actually on hand on 31 December 1950 in private enterprises.

3. The price of each commodity and property in each locality on 31 December 1950 will be used as the base price for the revaluation of assets.

4. When the price of a certain material, as of 31 December 1950, cannot be determined because of the irregularity of its price, the Assessors Committee may set a price that can be used as the base price for that material.

5. All assets belonging to the branch establishments of private enterprises shall be revaluated separately, on the basis of the price of each material in each locality. The results of the revaluation will then be combined with the final accounts of the main establishment.

6. All assets belonging to branch establishments of foreign enterprises in China shall also be revaluated as specified in this regulation.

7. The revaluated assets and the readjusted capital shall be calculated in yuan (Jen-min-piao); however, in the Northeast, in Inner Mongolia, and Sinkiang, they will be calculated in the monetary units used in those areas.

8. The time limit for the revaluation of assets and the readjustment of capital shall be set by the local Industrial and Commercial Administrative Office in accordance with local conditions, but, in general, the work must be completed before 30 June 1951.

9. The revaluation work shall be carried out mainly by the Assessors Committee in each locality. The committee will consist of representatives selected from the local Industrial and Commercial Administative Office, the local tax office, the local industrial and commercial associations, and various local organizations and accountants. The committee may set up branch committees as required.

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10. The responsibilities of the Assessors Committee are:

a. Propagate objectives and regulations concerning the revaluation of assets and the readjustment of capital in private enterprises.

b. Give advice and leadership in the revaluation work.

c. Set up the base price for each material to be revaluated.

d. Examine asset account sheets prepared by the private enterprises.

e. Re-examine asset account sheets prepared by the private enterprises when discrepancies are found.

f. Handle all other matters relating to the revaluation of assets and the readjustment of capital.

B. Revaluation of Assets

1. The base price of the stock goods shall be determined as follows:

a. Merchandise and raw materials -- The import price of these goods on 31 December 1950 as determined by the Assessors Committee.

b. Industrial products and by-products -- The sale price of these products on 31 December 1950, less profit, as determined by the Assessors Committee.

c. Unfinished industrial products and by-products -- The actual price of finished products and by-products on 31 December 1950, less the manufacturing cost to finish them, as determined by the Assessors Committee.

2. Base price of the fixed assets shall be determined as follows:

a. Land -- The price of land fixed by the local land administrative office. When there is no land administrative office, use the price of land fixed by the local government. When the current sale price of the land is less than the fixed price, use the current sale price as the base price of land.

b. Buildings -- Tables for the estimated cost of initial construction and the depreciation rates as set up by the Assessors Committee. On the basis of these tables, the responsible official of each private enterprise will revaluate each building according to its structure, the depreciation rate, and its age. When the age of a building is obscure, use an estimated age.

c. Machinery and accompanying installations, transportation facilities, molds and models, etc. -- Tables for the estimated initial manufacturing cost and the depreciation rates as set up by the Assessors Committee. On the basis of these tables, the responsible official of each private enterprise will revaluate each item according to its quality, its depreciation rate, and its age.

d. Tools -- Tables for the replacement value and the depreciation rates as set up by the responsible official of each private enterprise. On the basis of these tables, the responsible official of each private enterprise will revaluate each tool according to its age.

e. Damaged, broken items, and materials no longer in use -- The price of scrapped materials will be used for the revaluation of these goods.

3. Creditor's assets shall be revaluated as follows:

a. Receivable accounts, receivable checks and drafts, and other creditor's assets -- Only the amount of credits that can actually be collected will be revaluated. Credits which are to be received in commodity units, or in actual commodities, will be calculated according to the list price of the commodity unit, or the estimated current market price of the commodity.

b. Advanced payment and down payment -- The Assessors Committee will estimate the amount of credit to be revaluated on the basis of condition of agreement, or the amount and quantity of cash or commodity which have already been put down as payment. If the payment was made in foreign currency, the amount will be estimated according to the procedure for the estimation of foreign currency.

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4. Gold and silver, foreign currency, and assets abroad -- The value of gold and silver shall be estimated on the basis of the price of these materials as listed by the People's Bank. The value of foreign currency shall be estimated on the basis of foreign currency exchange rate listed by the People's Bank. The assets abroad shall be estimated in the value of the assets in each respective country, and then the amount will be converted into yuan (people's currency) on the basis of foreign currency exchange rate listed by the People's Bank.

5. Investment stocks and bonds -- The value of stocks and bonds which have current transaction prices shall be estimated on the basis of current transaction prices; those which do not have a current transaction price will be estimated according to their current estimated value.

6. Delayed payment and unused commodities -- The estimated value of the unpaid portion of debts, and unused portion of commodities shall be revaluated.

7. Debts -- All loans received in gold, silver, and foreign currency shall be revaluated on the basis of the prices of these materials and the foreign currency exchange rate listed by the People's Bank; those received in commodity units, or in actual commodities, will be revaluated on the basis of the estimated value of the commodity unit, or prevailing price of each commodity.

8. Trademark rights, copyrights, and monopoly rights will be limited only to those which were obtained legally, and the remaining portion of the rights will be revaluated.

9. When the amount of revaluated assets is insufficient to meet the liability, the private enterprise may either increase the amount of capital, work out an agreement with a lender, or request bankruptcy.

10. All private enterprises, after completion of revaluation, must prepare account sheets which itemize the assets and liabilities, and their revaluated values. These account sheets must include names, ~~amounts, recorded~~ values, estimated base prices, revaluated values, and the amount of surplus created from the revaluation, of all assets and liabilities. When the value of the revaluated assets is less than the recorded value, the excess portion will be considered as the surplus.

11. The responsible official of each private enterprise must submit the above-mentioned itemized sheets, with affidavits for the base prices, to the local Assessors Committee for examination and approval. The itemized sheets of private enterprises organized in the company system must be accompanied by supervisor's or inspector's affidavits attesting to the authenticity of the sheets.

12 A notice shall be sent to each private enterprise upon completion of examination of the sheets by the Assessors Committee. Each private enterprise will be responsible for all discrepancies in the sheets.

C. Readjustment of Capital

1. The surplus created through the revaluation of assets must be recorded separately. It shall be used for the readjustment of capital.

a. The surplus created through the revaluation may be used to offset any loss sustained during the revaluation, but it must not be distributed as dividend. The surplus will not be subjected to income tax.

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b. The amount of income which shows on the closing date of the business for the calender year 1950 is subjected to the income tax as specified in the Industrial-Commercial Tax Regulation.

2. The surplus created through the revaluation must be used to readjust the amount of capital. The responsible official of each private enterprise, upon receiving all the papers returned to him by the Assessors Committee, may request for approval of the investors or stockholders to readjust the amount of capital.

3. The responsible official of each private enterprise, upon completion of all preceding procedures, must register, or re-register, his enterprise with the Commercial and Industrial Administrative Office by submitting the following papers:

a. Notice of the examination of all revaluation papers.
b. Approval of the readjustment of capital.
c. Partnership agreement, or company regulation, and the list of names of stockholders.

4. Municipal and hsien governments may draw up supplementary regulations to facilitate revaluation work in its own locality, as required. All such supplementary regulations, however, must be submitted to the higher government organization, or to the Committee of Finance and Economics, Government Administration Council, for recording.

5. At the discretion of the Assessors Committee, small private stores and enterprises in villages and towns may be excluded from the revaluation of their assets.

6. When municipal and hsien governments, due to certain difficulties, must delay revaluation work temporarily, they must ask for the approval of the Committee of Finance and Economics in the large administrative region for such delays. Also, all such delays must be reported to the Committee of Finance and Economics, Government Administration Council, for recording.

7. This regulation may be applied to the revaluation of assets of joint private-public enterprises.

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